Importance of Regulatory Framework in Services Sector Development

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Importance of services sector

• Four important roles of services
  • Value added to the economy; the highest exceeding manufacture
  • Foreign currency revenue from exports
  • Employment; absorb more labor than agriculture
  • As inputs to other sectors and activities

• The last role are often neglected
  • Act as “glue” to economic activities
  • Making economic activities being conducted effectively
  • Required in the post-production activities

• Distribution and transportation takes very significant part of production in other sectors
  • Inefficient transportation and distribution are costly to economy
Regulatory problems in services

- Services sector development depends on strong regulatory framework
  - The problem is not it has little attention from policy makers, but tends to be too heavily regulated

- Business regulations and investment climate
  - Increase costs to set-up business and raise operation cost

- Unclear services regulations
  - Often not targeting real problems, and overlap with other regulations, lead to other problems
  - Has been there so long, nobody understand the objectives, but remains to be there

- Regulations that restricts trade
  - Protecting existing providers, not necessarily domestic, in the cost of users
  - Reduce the ability to absorb FDI
# World Bank’s Ease of Doing Business Rank

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Some examples of regulatory burden

- There are 12 procedures to get business license and it can cost up to US$ 1,100
  - In some sectors the requirement involve hundred types of forms: 170 license types to start shoe manufacture
  - In average it takes 380 days from registration to start manufacturing business
  - It links with retributions and taxes of the local government

- Cost of transporting goods from one region to another is high because of local regulations and retributions

- The problems stream from three inconsistencies
  - Between policy planning and regulations
  - Between regulations from different agencies
  - Between regulations from central and local governments

Some initiatives and challenges

- Forward looking plans in formation of laws and sub-national regulations
  - But only for laws, not implementing regulations

- Compulsory regulatory impact assessment
  - But only for laws, not implementing regulations
  - Often done just for formality

- The national government started review program to evaluate “problematic” local regulations, but mostly focus on local taxes and charges
  - During the period of 2010-2015, the ministries are expected to review around 20,000 local regulations. Until 2013, there have been more than 1,160 regulations that have been annulled or amended

- No coordinated initiative to review existing regulations
  - There are some attempts in investment coordination board and also in planning agency

- Need to be done at high level, i.e. a team under vice president
  - Also need to be clear in measurement, e.g. using Ease of Doing Business Rank as an indicator
Regulatory framework in services

Problems with regulations in services

- Unclear objectives
  - Market failures, e.g. concentration of market power, have been cited as sources, but the regulations do not address these issues
  - Non-economic objectives are often mentioned, e.g. social issues or national interests, but there is no explanation on how the regulations serve those objectives

- Overlapping and often contradictory regulations
  - Lead to unclear responsibility of various government agencies
  - Often due to the custom that Laws only deal with general term, and leave specific matters on lower level implementing regulations

- No review mechanism on existing regulations
  - Many regulations are no longer relevant since the surrounding mechanisms have changed
  - But still adds additional burdens

- There need to be inventory taking on existing regulations related to services
  - Applying regulatory guillotine procedures
  - Introducing “sunset clause” and IRA

- In formulating regulations some aspects need to be put into perspective
  - What is the underlying issues?
  - What can regulations offer?
  - Is there alternative and less distortive solution to the issue?

- Transparency and participation of wider stakeholders, including independent regulatory bodies
Services trade regulations

- Trade in services can be seen as a way to provide high-quality services.
- Like the story of gains from trade in goods, countries willing to have access to services do not necessarily produce the activities locally:
  - Services link, e.g. transportation can be supplied through cross-border provision, so do some telecommunication services.
  - Greater market access for business services providers brings higher benefits also to local service providers.
- To many restrictions harm the interests of users and make economic activities costly:
  - Protection results to less competition, leading to inefficient and low performance.
How ISD can contribute?

• ISD can initiate discussions on regulatory framework of services
  • The discussions can provide better understanding on the interests of providers, users and other stakeholders, while looking at the impact of the regulations

• ISD can conduct studies on the impact of regulations on services
  • Mapping related regulations; identifying old, irrelevant regulations
  • Come up with feasible recommendation in streamlining services regulations

• ISD should push for major initiative in streamlining regulations
  • Simple efforts can lead to major changes
  • But requires political will and coordinated efforts at high level